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SUBJECT: KAZAKHSTAN - LAUNCH OF THE PUBLIC PRIVATE ECONOMIC
PARTNERSHIP INITIATIVE

SUMMARY

¶1. (U) Special Representative for Commercial and Business Affairs Frank Mermoud and Commerce DAS Paul Dyck joined Kazakhstani Prime Minister Masimov and a delegation of U.S. and Kazakhstani public and private sector officials to launch the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) in Astana on June 24. Discussion was organized around the PPEPI's six pillars. All sides acknowledged the need to tackle difficult issues so as to further improve Kazakhstan's investment climate. Participants had an opportunity to directly address questions of concern to Prime Minister Masimov. The launch concluded with the issuance of a Joint Statement, which envisions the formation of a PPEPI Coordination Committee and PPEPI working groups. End Summary.

PROMOTING A HEALTHY BUSINESS CLIMATE IS KEY

¶2. (U) The U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) was launched in Astana on June 24. The all-day program supported by EEB/CBA, SCA, and U.S. Embassy Astana included sessions devoted to each of the PPEPI's six pillars (economic diversification, anti-corruption, transparency, exchanges of experts and technology, regional integration, WTO accession) and a keynote address by Prime Minister Masimov, following which he answered questions from the audience. In addition to the four official PPEPI partners -- the USG, Kazakhstani government, American Chamber of Commerce in Kazakhstan (AmCham), and Kazakhstan's Atameken National Economic Chamber -- the U.S.-Kazakhstan Business Association (USKBA) and Kazakhstan's Forum of Entrepreneurs also played prominent roles at the launch.

¶3. (U) Vice Minister of Industry and Trade Edil Mamitbekov delivered opening remarks at the June 24 event, reminding the audience that the U.S. is the largest source of foreign investment in Kazakhstan. He expressed the hope that PPEPI would strengthen U.S.-Kazakhstan economic ties through "long-term dialogue," establish greater confidence between U.S. and Kazakhstani businesses, and contribute to Kazakhstan's economic diversification. In his follow-on address, senior Commerce Department representative DAS Paul Dyck explained that the PPEPI was unique in being private-sector driven. He stressed the need to further strengthen Kazakhstan's business climate. Atameken's Azat Peruashev noted in his own remarks that the Kazakhstani government had recently adopted decisions aimed at reducing administrative barriers to business activity. The AmCham's Ken Mack stressed that the principal aim of PPEPI should be to provide policy recommendations that would promote a healthy business environment. He noted that for much of the audience, economic diversification is the most important PPEPI pillar, but the key to diversification, he argued, is progress on the other five pillars, especially anti-corruption.

ECONOMIC DIVERSIFICATION

14. (U) A session on economic diversification followed the addresses by Mamitbekov, Dyck, Peruashev, and Mack. Timur Nurashev, Chairman of the Ministry of Industry and Trade's Investment Committee, noted the economic progress Kazakhstan had already made, attracting 80 percent of all the foreign investment in the Central Asia region. World Bank Kazakhstan Country Director Sergey Shatalov argued that successful economic diversification will require legal stability, political stability, regulatory efficiency, and strong anti-corruption measures. He contended that tax privileges and other investment benefits may be important at the initial stage of promoting investment, but in the long-run they can be economically distorting.

ANTI-CORRUPTION

15. (U) During a session on anti-corruption measures, Customs Committee Deputy Chairman Serzhan Dusembayev readily admitted that corruption is an "acute problem" in the customs service. The Customs Committee had done an analysis and found 58 different types of customs-related corruption. As a result, he explained, Customs was changing its procedures to decrease opportunities for corruption. Yerlan Sagadiyev, an advisor to Prime Minister Masimov, told the audience that Kazakhstan's new Tax Code -- which is expected to be adopted by the end of the year -- would increase transparency and reduce corruption. The economic aim of tax reform, he explained, was to gradually shift the tax burden from production to wealth. Raimbek Batalov of the Forum for Entrepreneurs argued that the situation with small- and medium-sized enterprises (SMEs)

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is not sustainable. They are hampered by corruption and the shadow economy. Though the government has recently taken steps to reduce administrative barriers to business activity, it must do more on that front. In addition, in order to assist SME development it is necessary to improve Kazakhstan's infrastructure, reform the tax and customs codes, provide better SME financing, and improve education and human capital.

TRANSPARENCY

16. (U) Leading off a session on transparency, Asian Development Bank Country Director Steven Wermert focused on government tenders. He contended that the lack of prequalification requirements for bidders deters prospective foreign participants who presume that less qualified but politically connected domestic companies are advantaged in the tender process. Karl Bach, Project Manager of the World Bank's Central Asia Corporate Governance project, highlighted the importance of bringing Kazakhstani corporate governance in line with international standards. He argued that progress remains slow on implementing accounting and corporate disclosure. Businesses are especially reluctant, he said, to provide better information on conflicts-of-interest and related-party transactions. Dina Shazhenova, Executive Secretary of the Ministry of Economy and Budget Planning, discussed the government's efforts to improve transparency through making state services more accessible, including through e-government initiatives.

EXCHANGES OF EXPERTS AND TECHNOLOGY

17. (U) In a session on exchange of experts and technology, Nick Olds, Country Manager for ConocoPhillips, argued that effective integration of knowledge and technology is critical to achieving the goal of economic diversification. Atameken's Azat Peruashev argued for exchange of American stock market expertise with Kazakhstanis. USAID Central Asia Regional Director Bill Frej proposed partnering the 30 Kazakhstani firms selected to participate in the government's "30 Corporate Leaders Program" with foreign companies as means to facilitate technology transfer and enhance cooperation.

REGIONAL INTEGRATION

¶18. (U) In a session on regional integration, USKZBA's Bill Veale stressed the importance of transport, logistics, and trade facilitation in developing regional economic links. The Lancaster Group's Nurlan Kapparov argued that Kazakhstan has great potential as a transit bridge between Europe and Asia. He emphasized the need to develop railway, highway, air routes, and pipelines to maximize Kazakhstan's attraction as a transit corridor. Ali Takesh of Philip Morris complained that differing and complex customs procedures have made it impossible for his company to export production from Kazakhstan to Uzbekistan.

WTO ACCESSION

¶19. (U) During a session on WTO accession, Betsy Hafner, USTR's Director for Russia and Eurasia, argued that low tariffs and open access to services markets -- two sensitive points in Kazakhstan's WTO negotiations -- are both good for Kazakhstan. High tariffs, she contended, increase prices for consumers, increase input costs for producers, and encourage smuggling. Hafner explained that open access to services ensures supplies of services at world prices, benefiting manufacturers as well as consumers. Discussing yet another sensitive area, she contended that rigid controls on foreign labor are counter-productive, discouraging foreign investment. Zhanar Aitzhanova, Vice-Minister of Industry and Trade and Kazakhstan's lead WTO negotiator, described numerous initiatives to both improve the investment climate and speed Kazakhstan's WTO accession. Aitzhanova highlighted current efforts to liberalize the financial services sector, and asked that the U.S. take into account the WTO accession conditions it has requested from Russia when negotiating Kazakhstan's accession.

MASIMOV ANSWERS AUDIENCE QUESTIONS

¶10. (U) State Department Special Representative for Commercial and Business Affairs Frank Mermoud introduced Prime Minister Masimov, thanking him for his leadership and for his participation in the launch event. Mermoud noted that significant advancements in reducing trade barriers would benefit the public and private sectors

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of both countries. In his keynote address, Masimov reminded the audience that Kazakhstan had already attracted over \$80 billion in foreign investment and was aiming to become one of the world's 50 most competitive countries. Masimov stressed that the PPEPI pillars were all focus areas for the Kazakhstani government. Following his prepared remarks, Masimov responded to audience questions, addressing, inter alia, fairness, transparency, and competition. He also admitted the need to reduce corruption in both tax and customs by streamlining and simplifying procedures. In response to a question about pressures on foreign businesses from regional authorities, Masimov acknowledged the problem, and said that the inconsistent application and enforcement of laws by regional authorities is a critical concern for the central government. After the question and answer period, the AmCham's Ken Mack read out the agreed-to PPEPI Joint Statement, which envisions the formation of a PPEPI Coordination Committee and PPEPI working groups. (see para 12 for the Joint Statement text).

COMMENT

¶11. (SBU) Earlier concerns, particularly on the part of the AmCham, that the Kazakhstanis would try to turn the launch event away from the ambitious aims of PPEPI and into yet another routine investment conference proved to be unfounded. Instead, there was a clear understanding that the PPEPI is not about directly cutting business

deals, but rather about proposing policy changes that, if implemented, will ultimately lead to more foreign investment, economic growth, and economic diversification. The Kazakhstanis were, in fact, very accommodating in agreeing to almost all of the requests of the USG and AmCham regarding both the format of the launch event and the substance of the PPEPI Joint Statement. This included enshrining all six original PPEPI pillars in the Joint Statement and ensuring all were covered at the launch. Prime Minister Masimov also delivered on his promise to reserve a time block to answer participants' questions following his keynote address. That the Kazakhstanis have become much more open to seriously discussing tough, uncomfortable issues related to the investment climate was best evidenced by the remarks of Customs Committee Deputy Chairman Duysembayev, who minced no words about corruption in the customs service. Our next step should be to move forward expeditiously in forming several PPEPI working groups, so as not to lose the momentum from the successful launch event. End Comment.

JOINT STATEMENT

¶12. (U) The following is the full text of the PPEPI Joint Statement.

BEGIN TEXT

JOINT STATEMENT ON THE U.S.-KAZAKHSTAN PUBLIC-PRIVATE ECONOMIC PARTNERSHIP

Astana, June 24, 2008

Building on the United States-Kazakhstan strategic partnership and recognizing the fundamental role of the private sector in creating sustained economic growth, the Governments of the United States and Kazakhstan have established the Public-Private Economic Partnership to invest our public and private sectors in a shared vision of stability, prosperity, and reform in Kazakhstan.

The Partnership will propose policy reforms and other actions to remove impediments to, and create opportunities for, successful investment in Kazakhstan. It is intended to advance the following objectives:

- (1) Development of robust anti-corruption measures;
- (2) Economic diversification, with a special emphasis on small- and medium-sized enterprises;
- (3) Transparency and good governance, in particular measures that improve the investment climate by reducing corruption, removing administrative and legislative barriers, and strengthening the rule of law;
- (4) Scientific and technical cooperation and exchanges of specialists between universities, research institutes, and private business;
- (5) Highlighting the advantages that membership in the World Trade Organization will give to American and Kazakhstani investors and traders as well as positive impact on bilateral trade relations and

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the overall economies of both countries;

- (6) Regional economic integration that will bolster the independence, sovereignty, and security of the countries of the region, ensuring their sustainable development and prosperity.

The Governments of the United States and Kazakhstan, The American Chamber of Commerce in Kazakhstan, the Chamber "Atameken" are expected to be Partners in the Partnership. The Partnership also welcomes the support and participation of U.S. and Kazakhstani private companies and business associations.

The Partnership is intended to advance the key objectives mentioned above and facilitate dialogue on reform through working groups, consisting of one or more representatives of each of the Partners, as well as experts from international institutions and the private sector. The working groups will formulate proposals on legislation, policies, strategies and programs for achieving the Partnership objectives which will be submitted to the two Governments for review.

In accordance with objectives of the Partnership, the Coordination Committee, consisting of six people, including one representative of each of the Partners as well as Ambassador of the Republic of Kazakhstan to the United States and the U.S. Ambassador in the Republic of Kazakhstan is to coordinate the activity of the working groups.

At a minimum, the following working groups are to be created:

- (1) on issues of economic diversification and small and medium business development;
- (2) on securing transparency and creating conditions for efficient economic activity;
- (3) scientific and technical cooperation;
- (4) on issues of regional economic integration; and
- (5) on issues relevant to the reduction of corruption and the improvement of the investment climate.

In order to maintain a permanent dialogue within the framework of the Partnership, the United States and Kazakhstan plan to conduct a Kazakhstani-American Forum on the issue of Public-Private Economic Partnership on a regular basis every 1-2 years.

END TEXT

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